

COMMUNITY DEVELOPMENT COMMISSION
OF THE CITY OF NATIONAL CITY

Morgan Towers Enterprise Fund
HUD Project No. 129-38013-PB-WAH-L8

Financial Statements and
Single Audit Report on Federal Award Programs

Year Ended June 30, 2006

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COMMUNITY DEVELOPMENT COMMISSION
OF THE CITY OF NATIONAL CITY

Morgan Towers Enterprise Fund
HUD Project No. 129-38013-PB-WAH-L8

Financial Statements and
Single Audit Report on Federal Award Programs

Year Ended June 30, 2006

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Board of Directors

Community Development Commission of the City of National City

National City, California

INDEPENDENT AUDITORS' REPORT

We have audited the accompanying financial statements of the Morgan Towers Enterprise Fund, HUD Project No. 129-38013-PB-WAH-L8, of the Community Development Commission of the City of National City ("Commission") as of June 30, 2006 and for the year then ended. These financial statements are the responsibility of the Commission's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Morgan Towers Enterprise Fund of the Commission as of June 30, 2006, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 8, 2006 on our consideration of the Morgan Towers Enterprise Fund of the Commission's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The supplementary information listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information have been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, are fairly stated, in all material respects in relation to the basic financial statements taken as a whole.

Mayer Hoffman McCann P.C.

September 8, 2006

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FINANCIAL STATEMENTS

COMMUNITY DEVELOPMENT COMMISSION OF THE CITY OF NATIONAL CITY
Morgan Towers Enterprise Fund

Statement of Net Assets

June 30, 2006

Assets

Current assets:

1110	Petty cash	\$ 175
1120	Cash – operations	<u>20,824</u>
	Total current assets	<u>20,999</u>

Deposits held in trust:

1191	Tenant security deposits	<u>40,605</u>
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Prepaid expenses:

1240	Prepaid insurance	30,347
1250	Prepaid workers' compensation insurance	3,232
1260	Prepaid mortgage insurance	<u>2,687</u>
	Total prepaid expenses	<u>36,266</u>

Restricted deposits and funded reserves:

1310	Property tax impounds	3,091
1311	MIP impounds	13,372
1312	Insurance impounds	4,083
1321	Reserve for replacement – GMAC	548,606
1341	Residual receipts reserve – GMAC	<u>177,623</u>
	Total restricted deposits and funded reserves	<u>746,775</u>

Fixed assets:

1410	Land	212,568
1420	Building	5,488,048
1430	Building equipment – fixed	1,497,812
1440	Building equipment – portable	<u>75,841</u>
	Total fixed assets	7,274,269

Less: accumulated depreciation (3,795,813)

Net fixed assets 3,478,456

Total assets \$4,323,101

See accompanying notes to the financial statements.

COMMUNITY DEVELOPMENT COMMISSION OF THE CITY OF NATIONAL CITY
Morgan Towers Enterprise Fund

Statement of Net Assets

(Continued)

Liabilities and Net Assets

Current liabilities:

2110	Accounts payable	\$ 53,540
2320	Mortgage payable – current portion	<u>158,005</u>

Total current liabilities	<u>211,545</u>
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Deposits liabilities:

2191	Tenant security deposits	35,259
2195	Interest on tenant security deposits	<u>5,346</u>

Total deposits liabilities	<u>40,605</u>
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Long-term liabilities:

2320	Mortgage payable	3,180,054
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Less: Current portion	<u>(158,005)</u>
-----------------------	------------------

Total long-term liabilities	<u>3,022,049</u>
-----------------------------	------------------

Total liabilities	<u>3,274,199</u>
-------------------	------------------

Net Assets:

3131	Net Assets	<u>1,048,902</u>
------	------------	------------------

Total liabilities and Net Assets	<u>\$4,323,101</u>
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See accompanying notes to the financial statements.

COMMUNITY DEVELOPMENT COMMISSION OF THE CITY OF NATIONAL CITY
Morgan Towers Enterprise Fund

Statement of Profit and Loss and Changes in Net Assets

Year Ended June 30, 2006

Rental revenue:

Rent revenue:

5120 Rent revenue	\$ 465,227
5121 Tenant assistance payments	<u>563,933</u>

Total rent revenue	1,029,160
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Vacancies:

5220 Apartments	(5,939)
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Concessions:

5250 Rental Concessions	<u>(647)</u>
-------------------------	--------------

Net rental revenue	<u>1,022,574</u>
--------------------	------------------

Financial revenue:

5410 Interest income – project operations	187
5430 Interest income – residual receipts	10,590
5440 Interest income – reserve for replacement	<u>13,858</u>

Total financial revenue	<u>24,635</u>
-------------------------	---------------

Other revenue:

5910 Laundry revenue	7,872
5993 Miscellaneous revenue	<u>45</u>

Total other revenue	<u>7,917</u>
---------------------	--------------

Total revenue	<u>1,055,126</u>
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Expenses:

Administrative expenses:

6305 Service coordinator expense	5,750
6310 Office salaries	7,578
6311 Office expenses	19,773
6320 Management fee	41,220
6330 Manager salaries	42,821
6340 Legal expenses	477
6350 Audit expense	3,350
6351 Bookkeeping/accounting services	600
6390 Miscellaneous	2,963
6391 Resident council expense	<u>1,200</u>

Total administrative expenses	<u>\$ 125,732</u>
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See accompanying notes to the financial statements.

COMMUNITY DEVELOPMENT COMMISSION OF THE CITY OF NATIONAL CITY
Morgan Towers Enterprise Fund

Statement of Profit and Loss and Changes in Net Assets

(Continued)

Utilities expense:	
6450 Electricity	\$ 38,731
6451 Water	28,866
6452 Gas	50,109
6453 Sewer	<u>121,442</u>
Total utilities expense	<u>239,148</u>
Operating and maintenance expenses:	
6510 Janitorial/maintenance payroll	81,739
6515 Supplies	31,748
6520 Contracts	144,703
6525 Garbage and trash removal	10,976
6530 Security contracts/payroll	25,964
6546 Heating/cooling repairs	<u>55,829</u>
Total operating and maintenance expenses	<u>350,959</u>
Taxes and insurance:	
6711 Payroll taxes	12,748
6720 Property and liability insurance	35,265
6722 Workers' compensation	12,118
6723 Health insurance and employee benefits	13,665
6790 Miscellaneous licenses	<u>1,403</u>
Total taxes and insurance	<u>75,199</u>
Financial expenses:	
6820 Interest on mortgage payable	211,969
6850 Mortgage insurance premium	<u>16,240</u>
Total financial expenses	<u>228,209</u>
Total operating expenses before depreciation	<u>1,019,247</u>
Operating profit before depreciation	35,879
6600 Depreciation	<u>190,252</u>
Operating profit (loss)	(154,373)
Net assets at beginning of year	<u>1,203,275</u>
Net assets at end of year	<u>\$1,048,902</u>

See accompanying notes to the financial statements.

COMMUNITY DEVELOPMENT COMMISSION OF THE CITY OF NATIONAL CITY
Morgan Towers Enterprise Fund

Statement of Cash Flows

Year Ended June 30, 2006

Cash flows from operating activities:	
Rental receipts	\$ 458,641
Interest receipts	24,635
Tenant assistance payments	563,933
Laundry receipts and miscellaneous	7,917
Cash paid for operating expenses	<u>(1,005,101)</u>
Net cash provided by operating activities	<u>50,025</u>
Cash flows from investing activities:	
Decrease (increase) in reserve for replacement of depreciable assets	330,741
Acquisition of equipment	<u>(295,389)</u>
Net cash provided by investing activities	<u>35,352</u>
Cash flows from financing activities:	
Mortgage principal payments	<u>(148,087)</u>
Net cash used for financing activities	<u>(148,087)</u>
Increase (decrease) in cash	(62,710)
Cash - beginning of period	<u>83,709</u>
Cash - end of period	<u>\$ 20,999</u>
Reconciliation:	
Change in net assets	(154,373)
Adjustments:	
Depreciation	190,252
Decrease (increase) in:	
Prepaid expenses	(1,029)
Tenant security deposits	(1,903)
Increase (decrease) in:	
Accounts payable	40,145
Accrued payroll and payroll taxes	(15,139)
Accrued management fee	(9,831)
Tenant security deposits	<u>1,903</u>
Net cash provided by operating activities	<u>\$ 50,025</u>
Supplemental disclosures:	
Interest paid	<u>\$ 211,969</u>

See accompanying notes to the financial statements.

COMMUNITY DEVELOPMENT COMMISSION OF THE CITY OF NATIONAL CITY
Morgan Towers Enterprise Fund

Notes to the Financial Statements

Year Ended June 30, 2006

(1) Summary of Significant Accounting Policies

(a) Description of Project

Morgan Towers is an apartment project owned and operated by the Community Development Commission of the City of National City (the "Commission") for the purpose of providing housing for low-income elderly and handicapped persons. The primary purpose of the Commission is to eliminate blighted areas by encouraging the development of residential, commercial, industrial, recreational and public facilities. The Commission is subject to the oversight responsibility of the City Council of the City of National City (the "City"), and accordingly, is a component unit of the City, although it is a separate legal entity.

(b) Basis of Accounting

The Morgan Towers project is accounted for as an enterprise fund (proprietary fund type). A fund is an accounting entity with a self-balancing set of accounts established to record the financial position and results of operations of a specific governmental activity. The activities of proprietary fund types closely resemble those of ongoing businesses in which the purpose is to conserve and add to basic resources while meeting operating expenses from current revenues.

Enterprise funds account for operations that provide services to the general public on a continuous basis and are substantially financed by revenues derived from user charges. As an enterprise fund, Morgan Towers uses the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized as they are incurred.

(c) Rental Income

Rental revenues are subsidized with Federal government funds under a Section 8 contract with the U.S. Department of Housing and Urban Development ("HUD").

(d) Restricted Cash and Investments

In accordance with HUD requirements, Morgan Towers maintains the following restricted cash accounts:

Reserve for replacements of \$548,606 represents a monthly deposit of \$3,127, less current use for replacement, plus income earned thereon. The balance of this reserve will be used for the future replacement of property with HUD's approval.

COMMUNITY DEVELOPMENT COMMISSION OF THE CITY OF NATIONAL CITY
Morgan Towers Enterprise Fund

Notes to the Financial Statements

(Continued)

(1) Summary of Significant Accounting Policies, (Continued)

(d) Restricted Cash and Investments, (Continued)

Residual receipts reserve of \$177,623 is an accumulation of surplus cash as calculated by HUD's Computation of Surplus Cash, Distributions and Residual Receipts, which can only be expended with HUD's approval.

Reserve for tenant security deposits of \$40,605 represents amounts collected from tenants which are generally returned to the tenants when they vacate the property. A corresponding liability of \$40,605 is included in the accompanying balance sheet.

Reserve for property tax, MIP and insurance impounds of \$3,091, \$13,372 and \$4,083, respectively, totaling \$20,546 represent amounts held for the future payment of property tax, property and mortgage insurance.

All cash and investments are entirely insured and collateralized.

Details of cash and investments are as follows:

Union Bank Checking Account	\$ 20,824
Bank of America Checking Account	40,605
GMAC Commercial Mortgage	20,546
GMAC Commercial Mortgage	548,606
GMAC Commercial Mortgage	<u>177,623</u>
Total funds in financial institutions	<u>\$808,204</u>

(e) Depreciation

Depreciation of property and equipment is provided on the straight-line method over the following estimated useful lives:

Building	50 years
Improvements and equipment	5 to 41 years

(f) Income Taxes

Neither the Project nor its government owner is subject to income taxes.

COMMUNITY DEVELOPMENT COMMISSION OF THE CITY OF NATIONAL CITY
Morgan Towers Enterprise Fund

Notes to the Financial Statements

(Continued)

(1) Summary of Significant Accounting Policies, (Continued)

(g) Distributions

The Project's regulatory agreement with HUD stipulates, among other things, that the Project will not make distributions of assets or income to any of its officers or directors.

(h) Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(2) Fixed Assets

Fixed Assets consist of the following at June 30, 2006:

Land	\$ 212,568
Building and improvements	6,985,860
Furniture and equipment	<u>75,841</u>
	7,274,269
Accumulated depreciation	<u>(3,795,813)</u>
	<u>\$3,478,456</u>

Depreciation expense for the year ended June 30, 2006 was \$190,252.

(3) Net Assets

Net Assets are restricted and accounted for in accordance with criteria prescribed by HUD.

COMMUNITY DEVELOPMENT COMMISSION OF THE CITY OF NATIONAL CITY
Morgan Towers Enterprise Fund

Notes to the Financial Statements

(Continued)

(4) Mortgage Payable

A mortgage loan secured by the property is payable to GMAC . The original note was dated March 1, 1978 in the amount of \$5,125,000. Payments of principal and interest at 6.5% aggregating \$30,005 are made monthly with the final payment due August 1, 2019. The unpaid principal portion of the note at June 30, 2006 was \$3,180,054. The principal portion of long-term debt maturities is as follows:

<u>Year Ended</u>	<u>Amount</u>
2007	\$ 158,005
2008	168,586
2009	179,857
2010	191,927
2011	204,776
2012 and thereafter	<u>2,276,903</u>
	3,180,054
Less current portion	<u>(158,005)</u>
Long-term portion	<u>\$3,022,049</u>

The note is insured by HUD and is secured by substantially all property and equipment included in the accompanying balance sheet.

(5) Management Fee

The Morgan Towers Enterprise Fund pays a management fee equal to 4% of cash receipts to Falkenberg/Gilliam & Associates, Inc.

(6) Contingent Liabilities

The Community Development Commission of the City of National City is a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, it is the opinion of the government's counsel that resolution of these matters will not have a material adverse effect on the financial condition of the government.

SUPPLEMENTARY INFORMATION

COMMUNITY DEVELOPMENT COMMISSION OF THE CITY OF NATIONAL CITY
Morgan Towers Enterprise Fund

HUD Project No. 129-38013-PB-WAH-L8

Supplementary Information Required by HUD

Year Ended June 30, 2006

(1) Reserve for Replacement and Residual Receipts Account

In accordance with the provisions of the regulatory agreement, restricted cash is held to be used for replacement of property, with the approval of HUD, as follows:

	<u>Reserved for Replacement</u>	<u>Residual Receipts</u>
Balance, July 1, 2005	\$601,521	452,385
Monthly deposits (\$3,127 x 12)	37,524	-
Withdrawals	(104,297)	(285,352)
Interest earned	<u>13,858</u>	<u>10,590</u>
Balance, June 30, 2006 confirmed by depository	<u>\$548,606</u>	<u>177,623</u>

The reserve for replacement and residual receipts accounts are at GMAC Commercial Mortgage, and are comprised of cash held at Escrow Bank and investments in Treasury Bills, as follows:

	<u>Reserved for Replacement</u>	<u>Residual Receipts</u>
Cash	<u>\$ 548,606</u>	<u>177,623</u>

(2) Accounts Payable (Other than Trade Creditors)

There are no accounts payable other than trade creditors.

(3) Compensation of Officers

No compensation was paid to any officer of Morgan Towers.

COMMUNITY DEVELOPMENT COMMISSION OF THE CITY OF NATIONAL CITY
Morgan Towers Enterprise Fund

HUD Project No. 129-38013-PB-WAH-L8

Supplementary Information Required by HUD

(Continued)

(4) Identity-In-Interest Firms

None.

(5) Due to Other Funds

None.

(6) Tenant Security Deposits

Tenant security deposits are held at Bank of America in an account insured by the Federal government that is in the name of the Project. At June 30, 2006, the account consisted of \$40,605 in cash.

(7) Change in Fixed Assets Account

<u>Description</u>	<u>Assets</u>		
	<u>Balance at July 1, 2005</u>	<u>Additions</u>	<u>Balance at June 30, 2006</u>
Land	\$ 212,568	-	212,568
Buildings and improvements	6,698,755	287,105	6,985,860
Equipment	67,557	8,284	75,841
	<u>\$6,978,880</u>	<u>295,389</u>	<u>7,274,269</u>
	<u>Accumulated Depreciation</u>		
	<u>Balance at July 1, 2005</u>	<u>Additions</u>	<u>Balance at June 30, 2006</u>
Buildings and improvements	\$3,561,026	186,461	3,747,487
Equipment	44,535	3,791	48,326
	<u>\$3,605,561</u>	<u>190,252</u>	<u>3,795,813</u>

U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
HOUSING - FEDERAL HOUSING COMMISSIONER
OFFICE OF MULTIFAMILY HOUSING MANAGEMENT AND OCCUPANCY
**COMPUTATION OF SURPLUS CASH, DISTRIBUTIONS AND
RESIDUAL RECEIPTS**

PROJECT NAME Morgan Towers		FISCAL PERIOD ENDED: 6 / 30 / 06	PROJECT NUMBER 129-38013-PB-WAH-L8
PART A - COMPUTE SURPLUS CASH			
CASH	1. Cash (Accounts 1110, 1120, 1191, 1192)		\$ 61,604
	2. Tenant subsidy vouchers due for period covered by financial statement		\$
	3. Other (describe)		\$
	(a) Total Cash (Add Lines 1, 2, and 3)		\$ 61,604
CURRENT OBLIGATIONS	4. Accrued mortgage interest payable		\$
	5. Delinquent mortgage principal payments		\$
	6. Delinquent deposits to reserve for replacements		\$
	7. Accounts payable (due within 30 days)		\$ 53,540
	8. Loans and notes payable -- (due within 30 days)		\$
	9. Deficient Tax Insurance or MIP Escrow Deposits		\$
	10. Accrued expenses (not escrowed)		\$
	11. Prepaid Rents (Account 2210)		\$
	12. Tenant security deposits liability (Account 2191)		\$ 40,605
	13. Other (Describe)		\$
(b) Less Total Current Obligations (Add Lines 4 through 13)		\$ 94,145	
(c) Surplus Cash (Deficiency) (Line (a) minus Line (b))		\$ (32,541)	
PART B - COMPUTE DISTRIBUTIONS TO OWNERS AND REQUIRED DEPOSIT TO RESIDUAL RECEIPTS			
1. Surplus Cash			\$
LIMITED DIVIDEND PROJECTS	2a. Annual Distribution Earned During Fiscal Period Covered by the Statement		\$
	2b. Distribution Accrued and Unpaid as of the End of the Prior Fiscal Period		\$
	2c. Distributions Paid During Fiscal Period Covered by Statement		\$
	3. Amount to be Carried on Balance Sheet as Distribution Earned but Unpaid (Line 2a plus 2b minus 2c)		\$
4. Amount Available for Distribution During Next Fiscal Period			\$
5. Deposit Due Residual Receipts (Must be deposited with Mortgagee within 60 days after Fiscal Period ends)			\$
PREPARED BY		REVIEWED BY	
LOAN TECHNICIAN		LOAN SERVICER	
DATE		DATE	

(See Reverse for Instructions)

HUD-93486 (12-80)

SINGLE AUDIT REPORT ON FEDERAL AWARDS

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Board of Directors
Community Development Commission of the City of National City
National City, California

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

We have audited the financial statements of the Morgan Towers Enterprise Fund of the Community Development Commission of the City of National City (the "Commission") as of and for the year ended June 30, 2006, and have issued our report thereon dated September 8, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Commission's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Commission's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information of the Commission's Board of Directors, management and the Department of HUD and is not intended to be and should not be used by anyone other than these specified parties.

Mayer Hoffman McCann P.C.

September 8, 2006

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Board of Directors

Community Development Commission of the City of National City

National City, California

**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO
EACH MAJOR PROGRAM, INTERNAL CONTROL OVER
COMPLIANCE AND ON THE SCHEDULE OF EXPENDITURES OF
FEDERAL AWARDS IN ACCORDANCE WITH OMB CIRCULAR A-133**

Compliance

We have audited the compliance of the Morgan Towers Enterprise Fund of the Community Development Commission of the City of National City (the "Commission") with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2006. The Commission's major federal program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the Commission's management. Our responsibility is to express an opinion on the Commission's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Commission's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Commission's compliance with those requirements.

In our opinion, the Commission complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2006.

Internal Control Over Compliance

The management of the Commission is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Commission's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Board of Directors
Community Development Commission of the City of National City
Page Two

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the Commission as of and for the year ended June 30, 2006, and have issued our report thereon dated September 8, 2006. Our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended for the information of the Commission's Board of Directors, management and the Department of HUD and is not intended to be and should not be used by anyone other than these specified parties.

Mayer Hoffman McLean P.C.

September 8, 2006

COMMUNITY DEVELOPMENT COMMISSION OF THE CITY OF NATIONAL CITY
Morgan Towers Enterprise Fund

HUD Project No. 129-38013-PB-WAH-L8

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2006

<u>Federal Grantor/ Program Title</u>	<u>CFDA Number</u>	<u>Grant Identification Number</u>	<u>Federal Financial Assistance Expended</u>
U.S. Department of Housing and Urban Development:			
Section 8 Housing Assistance Payments Program	14.871	CA 60006011	<u>\$ 563,933*</u>
Supportive Housing for the Elderly	14.157	CA 60006011	<u>\$3,180,054*</u>

* Major program.

See accompanying notes to the Schedule of Expenditures of Federal Awards.

COMMUNITY DEVELOPMENT COMMISSION OF THE CITY OF NATIONAL CITY
Morgan Towers Enterprise Fund

HUD Project No. 129-38013-PB-WAH-L8

Notes to Schedule of Expenditures of Federal Awards

Year Ended June 30, 2006

(1) Summary of Significant Accounting Policies Applicable to the Schedule of Expenditures of Federal Awards

(a) Scope of Presentation

The accompanying schedule presents only the expenditures incurred by the Morgan Towers Enterprise Fund that are subsidized under the federal program of federal agency providing financial assistance. For purposes of this schedule, financial assistance includes federal financial assistance received directly from a federal agency. Only the portion of program expenditures reimbursable with such federal funds are reported in the accompanying schedule.

(b) Basis of Accounting

The expenses included in the accompanying schedule were reported on the accrual basis of accounting.

(c) Subrecipients

There were no payments of federal funds to subrecipients for the year ended June 30, 2006.

COMMUNITY DEVELOPMENT COMMISSION OF THE CITY OF NATIONAL CITY
Morgan Towers Enterprise Fund

HUD Project No. 129-38013-PB-WAH-L8

Schedule of Findings and Questioned Costs

Year Ended June 30, 2006

(A) Summary of Auditors' Results

1. An unqualified report was issued by the auditors on the financial statements of the auditee.
2. There were no material weaknesses in internal control nor were there any reportable conditions.
3. The audit disclosed no noncompliance that is material to the financial statements of the auditee.
4. There were no material weaknesses or other reportable conditions in internal control over major programs of the auditee.
5. An unqualified report was issued by the auditors on compliance for major programs.
6. The audit disclosed no audit findings required by the auditors to be reported under paragraph .510(a) of OMB Circular A-133.
7. The major program of the auditee was U.S. Department of Housing and Urban Development CFDA #14.871 – Section 8 Housing Assistance Payments Program and CFDA #14.157 – Supportive Housing for the Elderly.
8. The dollar threshold used to distinguish Type A program was \$300,000.
9. The auditee was considered a low risk auditee as defined by OMB Circular A-133 for the year ended June 30, 2006 for purposes of determining major programs.

(B) Findings Related to the Financial Statements which are Required to be Reported in Accordance with GAGAS

There are no auditors' findings required to be reported in accordance with GAGAS.

(C) Findings and Questioned Costs for Federal Awards as Defined in Paragraph .510(a) at OMB Circular A-133

There are no auditors' findings to be reported in accordance with paragraph .510(a) at OMB Circular A-133.

COMMUNITY DEVELOPMENT COMMISSION OF THE CITY OF NATIONAL CITY
Morgan Towers Enterprise Fund

HUD Project No. 129-38013-PB-WAH-L8

Summary Schedule of Prior Audit Findings

Year Ended June 30, 2006

There were no findings disclosed in the single audit report for the year ended June 30, 2005.

September 8, 2006

COMMUNITY DEVELOPMENT COMMISSION OF THE CITY OF NATIONAL CITY
Morgan Towers Enterprise Fund

HUD Project No. 129-38013-PB-WAH-L8

CERTIFICATE OF OFFICER

We hereby certify that we have examined the accompanying financial statements and supplementary information of the Morgan Towers Enterprise Fund and, to the best of our knowledge and belief, the same is complete and accurate.

Dated: _____

Community Development Commission
of the City of National City

By: _____
Executive Director

September 8, 2006

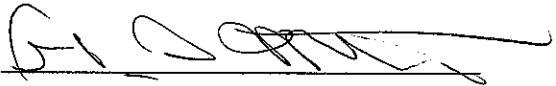
COMMUNITY DEVELOPMENT COMMISSION OF THE CITY OF NATIONAL CITY
Morgan Towers Enterprise Fund

HUD Project No. 129-38013-PB-WAH-L8

MANAGEMENT AGENT'S CERTIFICATION

We hereby certify that we have examined the accompanying financial statements and supplementary information of the Morgan Towers Enterprise Fund and, to the best of our knowledge and belief, the same is complete and accurate.

Dated: 9-28-06 Falkenberg/Gilliam & Associates, Inc.

By: 

Federal Identification No. 95-3313687